Pimlico Racing Association, Inc. and Subsidiary

Consolidated Financial Statements as of
and for the Years Ended December 31, 2018 and
2017, Other Financial Information for the Years
Ended December 31, 2018 and 2017, and
Independent Auditors' Report

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Pimlico Racing Association, Inc. and Subsidiary:

We have audited the accompanying consolidated financial statements of Pimlico Racing Association, Inc. and subsidiary (the "Association"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in stockholder's equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Association depends on the financial support of its parent for continued operations. Our opinion is not modified with respect to this matter.

Report on Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The other financial information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This other financial information is the responsibility of the Association's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. Such other financial information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such other financial information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such other financial information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

March 29, 2019

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash	$ 854,465	$ 1,013,836
Accounts receivable—less allowance for doubtful accounts of $230,103 and $235,411 in 2018 and 2017, respectively	5,268,791	5,117,278
Due from related parties	246,641	19,318
Prepaid expenses and other	512,965	645,804
Total current assets	6,882,862	6,796,236
PROPERTY AND EQUIPMENT:		
Land	10,448,451	10,448,451
Buildings and land improvements	6,395,245	2,283,068
Machinery, equipment, furniture, and fixtures	6,570,106	3,675,463
	23,413,802	16,406,982
Less accumulated depreciation	(2,930,687)	(2,044,871)
Property and equipment—net	20,483,115	14,362,111
OTHER NONCURRENT ASSETS	123,560	111,854
TOTAL	$ 27,489,537	$ 21,270,201

(Continued)

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 6,718,515	$ 4,912,222
Pari-mutuel tickets and vouchers outstanding	1,389,981	1,457,798
Deferred revenue	661,740	1,123,225
Due to related parties	12,947,290	8,691,101
Total current liabilities	21,717,526	16,184,346
DEFERRED INCOME	2,535,131	1,170,409
DEFERRED INCOME TAXES	284,186	284,186
Total liabilities	24,536,843	17,638,941
CONTRACTS, COMMITMENTS, AND CONTINGENCIES (Note 8)		
STOCKHOLDER'S EQUITY (DEFICIT):		
Common stock (Class A), $0.10 par value per share—authorized, 10,000 shares; issued and outstanding, 1,000 shares	100	100
Common stock (Class B), $0.10 par value per share—authorized, 10,000 shares; issued and outstanding, 9,000 shares	900	900
Distributions in excess of capital	(3,944,223)	(3,944,223)
Advances due to related parties	(3,814,606)	(9,551,217)
Retained earnings	10,710,523	17,125,700
Total stockholder's equity (deficit)	2,952,694	3,631,260
TOTAL	$ 27,489,537	$ 21,270,201

See notes to consolidated financial statements.

(Concluded)

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
REVENUE:		
Pari-mutuel wagering	$ 14,829,384	$ 15,469,421
Admissions, parking, and other non-wagering	11,657,910	12,051,351
Total revenue	26,487,294	27,520,772
PURSES, AWARDS, AND OTHER COSTS:		
Purses and awards	7,298,671	7,471,389
Signal fees	483,097	536,081
Pari-mutuel taxes and licenses	267,860	275,225
Pension funds	149,279	148,504
Maryland Million fund	96,488	118,782
Totalisator and other expenses	172,137	160,742
Total purses, awards, and other costs	8,467,532	8,710,723
EXPENSES:		
Operating costs	23,054,108	19,804,959
General and administrative	2,027,086	1,731,952
Total expenses	25,081,194	21,536,911
LOSS FROM OPERATIONS	(7,061,432)	(2,726,862)
OTHER INCOME AND EXPENSES:		
Horsemen contribution	-	100,000
Equity in income of affiliated off-track betting facilities	361,029	427,486
Other income	285,226	211,419
Total other income and expenses	646,255	738,905
LOSS BEFORE INCOME TAXES	(6,415,177)	(1,987,957)
INCOME TAX BENEFIT	-	(2,888,078)
NET (LOSS) INCOME	$ (6,415,177)	$ 900,121

See notes to consolidated financial statements.

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY (DEFICIT) FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock	Additional Paid-In Capital (Distributions in Excess of Capital)	Advances from (due to) Related Parties	Retained Earnings	Total Stockholder's Equity (Deficit)
BALANCE—January 1, 2017	$ 1,000	$ (3,944,223)	$ (15,192,857)	$ 16,225,579	$ (2,910,501)
Advances to related parties	-	-	5,641,640	-	5,641,640
Net income	-	-	-	900,121	900,121
BALANCE—December 31, 2017	1,000	(3,944,223)	(9,551,217)	17,125,700	3,631,260
Advances to related parties	-	-	5,736,611	-	5,736,611
Net loss	-	-	-	(6,415,177)	(6,415,177)
BALANCE—December 31, 2018	$ 1,000	$ (3,944,223)	$ (3,814,606)	$ 10,710,523	$ 2,952,694

See notes to consolidated financial statements.

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING ACTIVITIES:		
Net (loss) income	$ (6,415,177)	$ 900,121
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	885,816	471,992
Amortization of Racetrack Facility Renewal Account payments	(177,226)	(88,419)
Equity in income of affiliated off-track betting facilities	(361,703)	(427,666)
Deferred income tax expense	-	(1,768,265)
Changes in operating assets and liabilities:		
Accounts receivable—net	(151,513)	(891,964)
Prepaid expenses and other	132,839	(255,140)
Accounts payable and accrued expenses	1,806,293	(1,198,220)
Pari-mutuel tickets and vouchers outstanding	(67,817)	(201,352)
Deferred revenue	(461,485)	(340,740)
Due from (to) related parties—net	4,028,866	2,308,989
Net cash used in operating activities	(781,107)	(1,490,664)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,006,820)	(521,467)
Other investments and investments in affiliate	349,997	435,509
Net cash used in investing activities	(6,656,823)	(85,958)
FINANCING ACTIVITIES:		
Proceeds from Racetrack Facility Renewal Account	1,541,948	31,870
Proceeds from related parties	47,206,847	40,063,511
Advances to related parties	(41,470,236)	(38,597,691)
Net cash provided by financing activities	7,278,559	1,497,690
NET DECREASE IN CASH AND CASH EQUIVALENTS	(159,371)	(78,932)
CASH AND CASH EQUIVALENTS—Beginning of year	1,013,836	1,092,768
CASH AND CASH EQUIVALENTS—End of year	$ 854,465	$ 1,013,836
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:		
Settlement of notes payable with advances from related party included as a component of stockholder’s equity (deficit)	$ -	$ 4,175,820

See notes to consolidated financial statements.

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

The accompanying consolidated financial statements include the accounts of Pimlico Racing Association, Inc. and its wholly owned subsidiary, The Maryland Jockey Club of Baltimore City, Inc. (the "Association"). All intercompany accounts and transactions have been eliminated in consolidation. The Association owns the real property and other assets comprising Pimlico Race Course ("Pimlico") in Baltimore, Maryland.

Maryland Racing, Inc. (MRI) through its wholly owned subsidiary, MJC Racing (2007) LLC, owns a 100% voting and equity interest in the Association and Laurel Racing Association Limited Partnership ("Laurel"), an affiliated entity. The Stronach Group (TSG) ultimately owns a 100% equity interest in MRI.

The Association and Laurel are collectively referred to as The Maryland Jockey Club (MJC). Within the state of Maryland, MJC has the exclusive rights associated with providing pari-mutuel wagering on live thoroughbred racing and simulcast import thoroughbred racing.

The accompanying consolidated financial statements have been prepared assuming that the Association will continue as a going concern, which contemplates the recovery of assets and satisfaction of liabilities in the normal course of business. The Association has incurred losses from operations and has negative working capital, which raise substantial doubt about the Association's ability to continue as a going concern. The Association has limited liquidity and has not increased revenue sufficiently to cover operating costs. Management plans to improve the Association's operating results by generating greater revenue through special events, the expansion of off-track betting operations and the enhancement of social media marketing campaigns; however, management plans may not be successful and may result in continued negative cash flows from operations. TSG has agreed to provide sufficient capital resources to support the Association through March 30, 2020, as necessary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared using accounting principles generally accepted in the United States.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates utilized in preparing the consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates.

Cash—Cash includes cash on account and operational cash on hand. As of December 31, 2018 and 2017, amounts held in financial institutions were in excess of Federal Deposit Insurance Corpration's insurance limits.

Accounts Receivable—The allowance for doubtful accounts is based on management's evaluation and judgment for the probable loss on a specific identification basis.

Property and Equipment—Property and equipment are recorded at acquisition cost, less accumulated depreciation. Depreciation is provided on a straight-line basis over the following estimated useful lives as follows:

Furniture and fixtures	3–7 years
Machinery and equipment	3–7 years
Land improvements	15 years
Buildings and improvements	8–40 years

Depreciation expense was $885,816 and $471,992 for the years ended December 31, 2018 and 2017, respectively.

Impairment of Long-Lived Assets—Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If such events or changes in circumstances are present, the Association assesses the recoverability of the long-lived assets by determining whether the carrying value of such assets can be recovered through projected undiscounted cash flows. If the sum of expected future cash flows, undiscounted and without interest charges, is less than net book value, the excess of the net book value over the estimated fair value, based on discounted future cash flows and appraisals, is charged to operations in the period in which such impairment is determined by management. No such impairments were recorded for the years ended December 31, 2018 and 2017.

Accounting estimates related to long-lived assets are subject to significant measurement uncertainty and are susceptible to changes as such estimates require management to make forward-looking assumptions regarding cash flows and business operations.

Pari-Mutuel Tickets and Vouchers Outstanding—The Association holds amounts owed for unclaimed winning tickets from previous meets. Any amounts not claimed within one year will be remitted to the Maryland Racing Commission, in accordance with state law. During 2018 and 2017, amounts related to unclaimed tickets greater than one year were remitted to the Maryland Racing Commission in the amount of $583,560 and $713,928, respectively.

Revenue Recognition—The Association records gross wagering revenue associated with horse racing on a daily basis. Gross wagering revenue is generated on total mutuel play and reflects the amount earned by the Association after amounts are returned to the public. Wagering revenue is recognized gross of purses, stakes, awards, and pari-mutuel wagering taxes. The costs related to these amounts are shown as "stakes and purses" and "pari-mutuel taxes and licenses" in the accompanying consolidated statements of operations. Wagering revenue also includes signal fees earned on wagering at non-Maryland locations on live racing conducted by the Association.

Non-wagering revenue includes admissions, parking, publications, management fees, sponsorship and advertising, rental income, television rights, and other non-wagering revenue. Revenue from admissions and parking is recorded on a daily basis as incurred, except for seasonal amounts, which are recorded ratably over the racing season or when the related racing event occurs. Revenue from publication sales is recorded at the time of sale. Revenue from sponsorship and advertising, management fees, rental income, and television rights is recorded ratably over the terms of the respective agreements or when the related event occurs.

Deferred Revenue—Deferred revenue associated with racing operations consists primarily of prepaid box seats, admissions tickets, and parking, which is recognized as revenue ratably over the period of the related race meet or when the related racing event occurs.

Deferred Income—Deferred income represents grants received by the Association from the State Government of Maryland, which are given to racetracks for certain qualifying facility capital expenditures. These amounts are recorded in deferred income and amortized over the life of the assets constructed with the grant proceeds (see Note 8).

Signal Fees—Signal fees are based on an established percentage of the mutuel play. These amounts represent signal fees paid to non-Maryland racetracks by the Association.

Employee Benefit Plans—Maryland law requires Maryland racetracks to withhold a specified percentage of mutuel play for employee benefits. Payments are remitted to the Maryland Race Track Employees' Pension Fund (MRTEPF) on behalf of their employees and the residual is remitted to a plan sponsored by the State of Maryland covering state employees working at Maryland racetracks. Such contributions are reflected in the accompanying consolidated statements of operations as "pension funds." Under these plans, the Association is not required to fund any additional amount beyond amounts withheld based on pari-mutuel play.

The Association and Laurel contribute to a multiemployer defined benefit pension plan under the terms of the collective-bargaining agreement that covers its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

- If the Association and Laurel choose to stop participating in its multiemployer plan, the Association and Laurel may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. The Association and Laurel's participation in this plan for the annual periods ended December 31, 2018 and 2017, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. The most recent Pension Protection Act (PPA) zone status available is for the plan's year-end at December 31, 2017. The zone status is based on information that the Association and Laurel received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded,

and plans in the green zone are at least 80% funded. The financial improvement plan (FIP)/rehabilitation plan (RP) or "FIP/RP Status Pending/Implemented" column indicates plans for which a FIP or a RP is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject. Finally, the annual contributions made to the Association and Laurel's multiemployer plan reflect increases in minimum levels as required by the RP. Under the RP, the Association and Laurel are subject to Alternative Schedule One, which requires annual contribution increases of 10.2% through July 1, 2031.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status 2017	FIP/ RP Status Pending/ Implemented	Contributions of Association 2018	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
MRTEPF	52-6118068	Red	Yes	$ 224,405	No	December 31, 2018

TSG sponsors a defined contribution plan for eligible nonunion employees and the Association and Laurel equally share the costs associated with administering the plan. The Association matches 50% of the first 6% of qualified compensation contributed by eligible employees. For the years ended December 31, 2018 and 2017, the Association recognized $44,027 and $44,225, respectively, in contribution expense.

Additionally, the Association and Laurel sponsor a defined contribution plan for all eligible union employees and the Association and Laurel share the costs associated with plan administration. The plan does not require the Association to make contributions. However, the Association may voluntarily elect to make contributions. For the years ended December 31, 2018 and 2017, the Association did not make any contributions to this plan.

Advertising Costs—The Association generally expenses costs of advertising at the time the advertising program commences. However, costs incurred with respect to promotions for specific live race days are expensed on the applicable race day. The total amount charged to advertising expense during the years ended December 31, 2018 and 2017, was $8,488,935 and $6,916,740, respectively, which has been included within operating costs in the accompanying consolidated statements of operations.

Income Taxes—The Association follows the asset and liability method of tax allocation for accounting for income taxes. Under this method of tax allocation, deferred tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided to the extent that it is more likely than not that a deferred tax asset will not be realized.

The Association is a member of a controlled group that files a consolidated income tax return. The Association records a provision (benefit) for current and deferred income taxes on a separate return basis.

In accordance with Accounting Standards Codification (ASC) 740, *Income Taxes*, the Association periodically evaluates its tax positions, to evaluate whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on its technical merits. As of December 31, 2018 and 2017, the Association has not established a liability for uncertain tax positions.

Racing Days and Inter-Track Wagering Fees—The consolidated statements of operations reflect the results of 12 days of live racing conducted during each of the years ended December 31, 2018 and 2017.

Legislation authorizes intertrack wagering and off-track betting between the Association and Laurel. For the years ended December 31, 2018 and 2017, the Association generated gross wagering revenue on Laurel's live racing conducted on 156 days and 150 days, respectively. For each of the years ended December 31, 2018 and 2017, Laurel generated gross wagering revenue on the Association's live racing conducted during 12 days.

The total mutuel play at the Association was $18,959,609 and $21,652,817 for the years ended December 31, 2018 and 2017, respectively.

Recent Accounting Pronouncements—In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09 that creates a new FASB Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the industry topics of the codification. The core principle of FASB ASC 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Companies can elect to use either a full or modified retrospective approach when adopting this update, which is effective for the years beginning after December 15, 2018.

The Association adopted this standard on a modified retrospective basis effective January 1, 2019, which will be reflected in future consolidated financial statements. The most significant impact of the adoption of the new guidance relates to the accounting for pari-mutuel wagering revenue.

Gross versus Net Presentation—Under the new revenue standard, the Association concluded that it is not the controlling entity to the wagering arrangement with the customer, but rather functions as an agent to the pari-mutuel pool. As such, fees and obligations related to the Association's share of stake and purses, signal and operator fees, pari-mutuel taxes and licenses, totalizator and other expenses and fees directly related to the Association's racing operations will be reported on a net basis and included as a deduction to pari-mutuel wagering revenue.

The Association does not expect that this guidance will have a significant impact on income from operations, however, the Association is still evaluating certain assumptions in the underlying calculations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which addresses the recognition and measurement of leases. Under the new guidance, for all leases (with the exception of short-term leases), at the commencement date, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease; measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Further, the new lease guidance simplifies the accounting for sale-leaseback transactions primarily because lessees must recognize lease assets and liabilities, which no longer provides a source for off-balance-sheet financing. The effective date for this update is for annual periods beginning after December 15, 2019, with early adoption permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or

entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. The Association is currently evaluating the impact adopting this accounting standard will have on its consolidated financial statements.

3. INVESTMENTS IN AFFILIATES

Investments in affiliates represent investments in which the Association maintains a voting interest in excess of 20%, but less than or equal to 50%, and/or has significant influence, but not control, over the investee. These investments are accounted for in accordance with the equity method of accounting and are included in other noncurrent assets in the accompanying consolidated balance sheets as of December 31, 2018 and 2017.

Affiliated Off-Track Betting Facility—The Association and Laurel each have a 50% equity interest in Maryland OTB Facilities LLC ("Maryland OTB"), an off-track betting facility, which is accounted for under the equity method. Both the Association and Laurel share proportionately in any gains or losses. The Association received proceeds of $361,029 and $427,486 during 2018 and 2017, respectively, from Maryland OTB, which equaled the amount of equity income for the year.

Summarized financial information at a 100% basis for Maryland OTB as of and for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Operations:		
Revenue	$ 8,434,654	$ 8,111,686
Purses, awards, costs, and other operating expenses	(7,712,597)	(7,256,713)
Net income applicable to the Association and Laurel	$ 722,057	$ 854,973
Assets:		
Cash	$ 836,810	$ 615,453
Other current assets	28,697	50,364
Property and equipment	1,579,713	1,036,402
Total assets	2,445,220	1,702,219
Liabilities:		
Accounts payable and accrued expenses	1,159,803	739,175
Pari-mutuel tickets outstanding	549,362	512,701
Due to related parties	663,294	767,257
Total liabilities	2,372,459	2,019,133
Members' equity (deficit)	$ 72,761	$ (316,914)

Affiliated Training Center—The Association owns a 49.5% interest in Southern Maryland Agricultural Association (SMAA), which owns and operates the Bowie Race Course Training Center. The remaining 50.5% interest is indirectly owned by Laurel. SMAA's operating agreement requires joint control by the owners; therefore, the Association does not control SMAA. The Association and Laurel are responsible under Maryland racing law for the costs of operations, maintenance, and improvements to the training facility. During the years ended December 31, 2018 and 2017, the Association made no capital contributions.

Profit and losses are shared according to the ownership percentages. The Association did not receive distributions from SMAA, but, recorded equity income of $674 and $180 in 2018 and 2017, respectively, which has been included with operating costs in the accompanying consolidated statements of operations as the Association has determined that this investment is an integral part of its operations.

Summarized financial information at a 100% basis for SMAA as of and for the years ended December 31, 2018 and 2017, is as follows:

	2018	**2017**
Assets:		
Other current assets	$ 30,252	$ 137,378
Fixed assets—net	565,347	588,331
Total assets	595,599	725,709
Liabilities:		
Accounts payable and accrued expenses	115,339	127,928
Due to related parties	8,620	8,620
Total liabilities	123,959	136,548
Total partner's equity	$ 471,640	$ 589,161
Operations:		
Revenues	$ 360,900	$ 376,850
Operating expenses	(373,635)	(345,251)
Other income (expenses)	14,096	(31,236)
Net income applicable to the Association and Laurel	$ 1,361	$ 363

Maryland Thoroughbred Purse Account, Inc.—The Association and Laurel, with the concurrence of the Maryland Thoroughbred Horsemen's Association ("Horsemen"), formed Maryland Thoroughbred Purse Account, Inc. (MTPA) to manage; invest; and, in all respects, administer the Horsemen's share of the monies derived from mutuel play conducted by the Association and Pimlico. MTPA is owned 50% each by the Association and Laurel. The Association was not charged any fees for the years ended December 31, 2018 and 2017, and there was no equity income/loss or distributions from MTPA. In the event there are expenses in excess of revenue, the amount shall be offset against the Horsemen Owners' liabilities.

Summarized financial information at a 100% basis for MTPA as of and for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Assets:		
Restricted cash	$ 1,997,603	$ 4,839,437
Accounts receivable—net	4,001,926	3,218,091
Prepaid and other current assets	206,173	-
Due from affiliates	11,569,777	7,665,507
Total assets	$ 17,775,479	$ 15,723,035
Liabilities:		
Horsemen Owners' liabilities	$ 17,368,716	$ 15,399,836
Accounts payable and accrued expenses	406,763	323,199
Total liabilities	$ 17,775,479	$ 15,723,035

Race Track Payroll Account, Inc.—The Association and Laurel each own 50% of Race Track Payroll Account, Inc. (RTPA). RTPA administers and processes payroll transactions for the Association. For the years ended December 31, 2018 and 2017, RTPA recorded net income of $0.

Summarized consolidated balance sheet information as of December 31, 2018 and 2017, for RTPA is as follows:

	2018	2017
Assets:		
Cash	$ -	$ 89,024
Due from affiliates	8,622	8,622
Total assets	8,622	97,646
Total liabilities—accounts payable and accrued expenses	20,840	107,676
Members' deficit	$ (12,218)	$ (10,030)

4. INCOME TAXES

Significant components of the Association's deferred tax assets and liabilities as of December 31, 2018 and 2017, are as follows:

	2018	2017
Deferred tax assets:		
Fixed assets	$ -	$ 974,689
Net operating losses	3,720,727	1,330,722
Charitable contributions	30,818	60,436
Allowance for bad debts	67,305	68,858
Preakness rights	219,375	219,375
Investments in affiliates	498,161	517,628
Racetrack Renewal Facility	741,526	342,344
Other	74,137	63,177
	5,352,049	3,577,229
Less valuation allowance	(4,184,490)	(2,440,487)
Net deferred tax assets	1,167,559	1,136,742
Deferred tax liabilities—fixed assets	30,817	-
Deferred tax liabilities—land	1,420,928	1,420,928
Net deferred tax liabilities	$ (284,186)	$ (284,186)

Based upon the Association's recent history of taxable losses, the Association has determined that a full valuation of the deferred tax assets is required as of December 31, 2018 and 2017.

During the years ended December 31, 2018 and 2017, the Association paid no income taxes.

For purposes of preparing the stand-alone consolidated financial statements at December 31, 2018 and 2017, the current federal income tax expense of $0 and $1,751,490, respectively, is due to MRI and has been included in advances to related parties as a component of stockholder's equity (deficit) in the accompanying consolidated balance sheets.

As of December 31, 2018, the Company has approximately $12,700,000 of net operating loss carryforwards, which will expire between 2034 and 2037. The Company also has approximately $105,000 of charitable contributions that will expire between 2018 and 2022.

The Company's tax years for which the US federal and state statute of limitations have not expired are the tax years ended December 31, 2015, through December 31, 2018.

5. RELATED PARTY TRANSACTIONS

Due from related parties of $246,641 and $19,318 represent simulcast wagering settlement activity with affiliated facilities as of December 31, 2018 and 2017, respectively.

Due to related parties consists of $7,812,267 and $4,405,919 owed to MTPA and $5,135,023 and $4,285,182 representing simulcast wagering settlement activity with affiliated facilities as of December 31, 2018 and 2017, respectively.

Advances from (due to) related parties included as a component of stockholder's equity (deficit) consist of balances which are not expected to be paid or collected. Below are descriptions of the most significant transactions:

- The Association provided financial support to Laurel by providing funds to assist Laurel in meeting certain of its working capital requirements. Amounts included in stockholder's equity (deficit) related to amounts due from Laurel are $48,794,523 and $41,483,862 as of December 31, 2018 and 2017, respectively.

- TSG charges the Association and Laurel for certain operating expenses that TSG has paid on behalf of the Association and Laurel. These charges were allocated to the Association through the intercompany accounts between the Association and Laurel. As of December 31, 2018 and 2017, there was a balance due to TSG of $49,295,962 and $35,631,705, respectively.

- During the years ended December 31, 2018 and 2017, $550,147 and $785,646, respectively, in food and beverage services were provided by Maryland Turf Caterers, Inc. (MTC), a related party. These amounts are included in operating costs in the accompanying consolidated statements of operations. As of December 31, 2018 and 2017, amounts due from MTC for food and beverage services were $5,957,959 and $5,407,812, respectively.

- As of December 31, 2018 and 2017, the Association has recorded $770,895 and $567,165, respectively, in amounts owed from SMAA for expenses that were incurred by SMAA that were previously paid by Pimlico.

- As of December 31, 2018 and 2017, the Association owes Maryland OTB $2,217,811 and $2,246,457, respectively, primarily related to commissions.

- As of December 31, 2018 and 2017, the Association owes SMAA $163,349 and $0, respectively, primarily related to the Bowie Race Course Training Center.

- As of December 31, 2018 and 2017, the Association owed various related parties $31,649 and $29,460, respectively, for miscellaneous services received.

The Association uses equipment in its operations under a long-term agreement with a totalisator, which is a wholly owned subsidiary of TSG. Expense under this agreement is based on negotiated percentages of the daily pari-mutuel play, plus additional negotiated services. This totalisator expense was $39,227 and $37,557 for the years ended December 31, 2018 and 2017, respectively, and is included in totalisator and other expenses in the accompanying consolidated statements of operations.

The Association and related racetrack facilities buy and sell from each other their simulcast signals where wagering takes place. Revenue related to these transactions amounted to $1,648,624 and $1,312,993 for the years ended December 31, 2018 and 2017, respectively, and is included in pari-mutuel wagering in the accompanying consolidated statements of operations. As of December 31, 2018 and 2017, $162,650 and $191,728, respectively, was included in accounts receivable in the accompanying consolidated balance sheets related to this activity.

During the years ended December 31, 2018 and 2017, the Association received miscellaneous services from related parties in the amount of $154,694 and $80,897, respectively, which is included in operating costs in the accompanying consolidated statements of operations.

6. FAIR VALUE MEASUREMENTS

The carrying amounts of the Association's cash, accounts receivable, prepaid expenses, income taxes recoverable, accounts payable, and pari-mutuel tickets and vouchers outstanding approximate their fair values given the short-term nature of such items.

7. CREDIT RISK

The Association's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable, and due from related parties.

The Association, in the normal course of business, settles wagers for other racetracks and is thereby exposed to credit risk. The Association's consolidated financial statements include settlements for Laurel; however, these receivables consist of accounts from a large number of racetracks.

8. CONTRACTS, COMMITMENTS, AND CONTINGENCIES

The Association generates a substantial amount of its revenue from wagering activities and, therefore, it is subject to the risks inherent in the ownership and operation of a racetrack. These include, among others, the risks normally associated with changes in the general economic climate; trends in the gaming industry, including competition from other gaming institutions primarily outside of Maryland and state lottery commissions; and possible changes in tax laws and gaming laws.

In the ordinary course of business activities, the Association may be contingently liable for litigation and claims with customers, suppliers, former employees, and others. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Association.

The Association and Laurel are parties to an agreement with the Horsemen that expires on December 31, 2022. Pursuant to this agreement, the Horsemen have the option to purchase and operate racing days from the Association and Laurel and agreed to reallocate a portion of their statutory share of in-state wagering revenue and agreed-upon simulcast fee revenue to the Association and Laurel. During 2018 and 2017, the Horsemen contributed $5,200,000 to the Association and Laurel, of which $0 was contributed to Pimlico. During 2018 and 2017, the Horsemen additionally contributed $0 and $100,000,

respectively, toward the costs of stabling and training at Pimlico; therefore, total contributions to Pimlico amounted to $0 and $100,000, respectively. In addition, the Horsemen reallocated $512,457 and $569,864 to the Association and $2,646,777 and $2,617,576 to Laurel from the Horsemen's share of in-state wagering revenue and simulcast fee revenue during the years ended December 31, 2018 and 2017, respectively.

The Association and Laurel may receive a grant from the Racetrack Facility Renewal Account (RFRA), established under State Government Article, Section 9-1A-29, Annotated Code of Maryland, for qualifying racetrack facility capital expenditures. During 2018 and 2017, the Association and Laurel were eligible to receive matching funds for qualified expenditures. During the years ended December 31, 2018 and 2017, the Association received $1,541,948 and $31,870, respectively, from RFRA for approved construction projects, which was recorded as deferred income in the accompanying consolidated balance sheets. The grant income is being recognized into operations over the useful lives of the assets constructed by such proceeds. For the years ended December 31, 2018 and 2017, $177,226 and $88,419, respectively, was recognized in other income related to these grants in the accompanying consolidated statements of operations.

9. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 29, 2019, which was the date these consolidated financial statements were available to be issued.

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OTHER FINANCIAL INFORMATION

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

NON-WAGERING REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Sponsorship and advertising (including television rights)	$ 5,788,012	$ 6,604,020
Admissions	4,434,269	4,058,715
Publications	158,193	191,570
Parking	147,474	167,673
Simulcast income	60,566	60,917
Management fees	58,808	60,233
Sale of manure and straw	26,279	23,235
Service centers	20,441	29,396
Lottery	7,885	8,585
Other	955,983	847,007
	$ 11,657,910	$ 12,051,351

See notes to consolidated financial statements.

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

OPERATING COSTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Advertising, publicity, and promotion	$ 8,488,935	$ 6,916,740
Salaries and wages	4,522,176	4,572,943
Outside services	1,817,140	1,544,037
Utilities	1,269,115	1,062,892
Special events	1,268,190	1,077,025
Payroll taxes and employee benefits	1,130,481	945,284
Maintenance and repairs	982,993	729,358
Depreciation	885,816	471,992
Equipment rental	576,775	522,597
Taxes and licenses	505,091	468,084
Insurance	446,447	283,110
Operating supplies	242,674	211,752
Publication cost of sales	170,382	189,671
Travel, meals, and entertainment	144,989	135,359
Communications	74,104	97,098
Other	528,800	577,017
	$ 23,054,108	$ 19,804,959

See notes to consolidated financial statements.

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Administrative salaries and wages	$ 596,216	$ 618,488
Predevelopment costs	363,896	35,365
Professional fees	282,728	400,737
Payroll taxes and employee benefits	185,143	180,908
Communications	177,287	161,664
Bank service charges	110,048	153,226
Bad debt expense	75,000	5,308
Charitable contributions	58,366	46,995
Travel, meals, and entertainment	41,761	40,792
Office equipment rental	10,481	9,460
Office supplies	5,758	4,666
Other	120,402	74,343
	$ 2,027,086	$ 1,731,952

See notes to consolidated financial statements.

PIMLICO RACING ASSOCIATION, INC. AND SUBSIDIARY

MISCELLANEOUS DATA
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
PROFESSIONAL FEES—Attorney fees:		
Rifkin, Livingston, Levitan & Silver, P.C.	$128,385	$151,058
Blank, Rome LLP	3,210	2,025
Other	40,460	122,428
	$172,055	$275,511
ACCOUNTING AND AUDITING FEES:		
Deloitte & Touche LLP*	$104,382	$101,305
Gegorek & Company, P.A.	-	4,356
Other	3,336	3,251
	$107,718	$108,912

*Amount represents an allocation determined by TSG as part of their overall audit engagement with Deloitte & Touche LLP.

See notes to consolidated financial statements.